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Proceedings of a Seminar
Sponsored by the Manitoba
Economic Development
Advisory Board

Winnipeg 1976

An Inquiry Into the Future of Public and Private Pension Plans.

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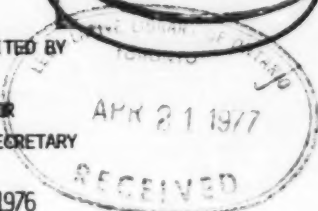
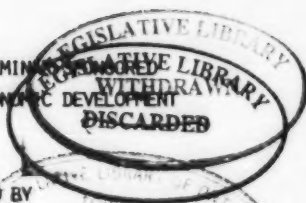
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AN INQUIRY INTO THE FUTURE
OF PUBLIC AND PRIVATE
PENSION PLANS

PROCEEDINGS OF A SEMINAR
BY THE MANITOBA ECONOMIC DEVELOPMENT
ADVISORY BOARD

COMPILED AND EDITED BY
JOHN MCGUIRE
RESEARCH DIRECTOR
AND EXECUTIVE SECRETARY

WINNIPEG, MAY 1976



*Gift from
Board*

The Economic Development Advisory Board, established in 1969, serves as an independent channel of communication between the government and the various institutions of the private sector. The Board members are therefore selected from this latter group to ensure that the viewpoints of the various interests concerned with economic development are presented to policy-makers in Cabinet. Specifically, the Board has a responsibility to enquire into "how best to stimulate and co-ordinate public and private activities in the field of economic development in the province" and also to "recommend any measures considered necessary to achieve the most effective means of communication between government departments and agencies and industries." The Board reports directly to the Minister of Industry and Commerce, the Hon. Leonard S. Evans.

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FOREWORD

The Economic Development Advisory Board as part of its mandate endeavors to act as a conduit for discussion between government and the private sector for the purpose of attaining some consensus on matters which influence the economic development of Manitoba. The motive for the sponsoring of this seminar, "An Enquiry into the Future of Public and Private Pension Plans" arises directly from that part of its mandate. It was our hope that a face to face discussion by leading representatives of various groups who are concerned, in a direct way, with the design and administration of pension plans would prove enlightening not only to those representatives but to the government and to the general public. After reviewing the proceedings of that seminar, the Board believes its hopes have been realized.

No doubt everyone who was present at this seminar came away at the end of the day with the same feelings that delegates to any seminar generally have. The typical delegate would most likely say that although most of the issues were touched upon and various points of view on each issue was expressed and although, I, as an individual, gained a few insights, for the most part no new or firm direction evolved out of the day's proceedings. Therefore, he would continue, everyone returned to their work and carried on as usual. At best, all that was gained was that each of us now has a little better understanding of the opinions and frustrations of the others.

It cannot be denied that amongst the delegates there existed a wide area of disagreement and that as a result of the day's discussion no state-

ment of policy was generated that could serve as a guideline for direct initiative on anyone's part. Nevertheless, from the day's debate there did emerge a fairly broad consensus; a consensus that could not be readily recognized during the heat of the debate. Only after cold reflection of the day's events does the consensus come into focus. It was for this reason that EDAB thought it would be useful to publish not only the proceedings of that seminar but also to preface the proceedings with EDAB's interpretation of the consensus of opinion.

The future of pension plans is currently a very topical issue not only in Manitoba but throughout Canada. Unfortunately, because of the absence of forums such as this seminar much of the debate is carried on through the news media and has tended to degenerate to mere rhetoric. Such rhetoric does not contribute to meaningful resolution of the important issues that have created the present state of controversy.

EDAB organized this seminar - which incidently was purposely called a seminar rather than a conference - in such a way as to allow for dialogue between the delegates instead of uni-directional lecturing from the podium to the audience. To this end, we deliberately invited only a small number of experts to represent various points of view. We intended to have only fifty delegates but due to the interest in the subject, final attendance was approximately sixty-five. Secondly, because we realized that the discussion throughout the day would need some direction, we asked a few people to present position papers. These people were instructed, however, to view their role as discussion leaders rather than lecturers. Mr. John McGuire, our Research Director presented the first paper which was an over-

view of the problem in order to attempt to place all the issues in some perspective. He was followed by Professor E. R. Vogt, Chairman of the Pension Commission of Manitoba. During lunch, the delegates were addressed by Premier E. Schreyer. Then in the afternoon the discussion centered around a panel consisting of: Mr. John Green, Group Manager, Great-West Life Assurance Company; Ms. Yhetta Gold, Executive Secretary, Age and Opportunity Centre; Mr. Arthur Coulter, Executive Secretary, Manitoba Federation of Labour and; Mr. John Bulman, President, The Bulman Group.

The format of this booklet follows a similar structure with the following exceptions. The seminar's proceedings are prefaced by EDAB's interpretation of the consensus of opinion of the delegates. The presentations of the last two mentioned panelists are not available for publication and Premier Schreyer's speech is not reproduced but the Winnipeg Tribune's account of his speech has been put in the appendix. Finally, a summary of the discussion that followed each speaker's presentation has been provided.

To conclude, we would like to thank everyone involved with the seminar and the production of this booklet including the speakers and delegates to the seminar, and the directors and staff of EDAB.



L. Remis
Chairman

1.

Consensus Report of the Seminar Proceedings

There was a general feeling that the problems associated with the existing pension system were not insurmountable. Although there were disagreements on the details of the needed reform, there was little disagreement over the broad direction that the reform should take. It was felt that the responsibility for resolving the disagreements and for providing the leadership in formulating and implementing the required reforms should fall squarely upon the shoulders of the newly created Pension Commission of Manitoba. One of the most important ways the Commission could fulfill this responsibility would be to provide a forum for the continued debate of the issues by all those concerned. In addition to that general observation the following points should be made.

As measured by the amount of discussion, the primary concern of the delegates was the efficiency of the pension plans as a vehicle for providing a good and a secure source of retirement income. The impact of pension plans on the economy was recognized to be important but the problems surrounding this issue seemed to be of secondary concern to the delegates.

Efficiency of Pension Plans

The main issues discussed with respect to the efficiency of the pension plans centered around such questions as:

Will the income for the retired be adequate and yet will there be enough room for individual discretion as well?

Will the cost of assuring this retirement income be too high to the workers and to the employers?

Although there was a feeling that inflation and the growing popularity of indexing pension incomes would increase the cost of pensions beyond the point that either the employee or the employer could afford, there were several indications that these concerns were red herrings. It is true that inflation and indexing are contributors to the rising costs but only because of the existing characteristics of the plans; if these characteristics were altered the adverse impact of inflation and indexing on costs could be largely nullified. Of course, there were differences in opinion with respect to what reforms should be instituted but there was a broad consensus that the problems created by inflation could be overcome. In fairness, it should be mentioned that there remained some scepticism amongst some of the delegates, particularly amongst the businessmen.

It was generally accepted that the pension system in Canada would function better if there were only two tiers. The first tier which should be administered by the government would be designed to assure that every Canadian worker upon retirement would have a right to a 'liveable' income; the income would have to be high enough to allow the retired person not only to purchase his basic needs but to live with dignity. It was also generally agreed that because every individual has the social responsibility to provide, to the best of his ability, retirement income for himself, the financing scheme for such a pension plan should be supported by all workers on a compulsory basis. There was no agreement beyond these two basic statements. For instance, some argued that such a universal plan should be, as much as possible, fully funded while others advocated a pay-as-you-go scheme. Differences of opinion also arose over such things as what the level of income should be, how emigrants and immigrants should be treated, and how people

who enter the work-force late in life (or not at all) should be treated?

The second tier of the pension system should be the domain of privately administered plans and these plans would include company plans and individual savings plans. The rationale for such plans is to allow individuals and groups of individuals to design plans appropriate to their own needs and desires. While it was admitted that there were serious problems with the existing plans, these problems could be corrected. Even Labour was not strongly opposed to private plans but warned that the time for reform was short. If change did not occur soon, a public plan would replace the private ones. Although such a warning could be viewed as a threat, it would be more accurate to view it as a prophecy.

Vesting, portability and locking-in were three areas of needed reform in the opinion of the delegates. Most agreed that vesting was desirable and that immediate and full vesting was the ideal. Vesting of the employer's contribution was justified on the grounds that such contributions were part of the wage package and not a reward for long service. However, there existed obstacles of a pragmatic kind to the achievement of this ideal. For instance, full and immediate vesting would create massive administrative expenses especially if there was not complete portability. Complete portability would require a certain degree of standardization in all the plans; a requirement which would destroy one of the advantages of private plans. It was also generally agreed that locking-in of both the employer's and employees' contributions at some point in the working life of the employee was desirable. However, there was no general agreement as to when the locking-in should be.

At one extreme, it was argued that locking-in should be immediate. The logic for this stance was the argument that pension plans should be viewed solely as a vehicle to provide retirement income; pension funds should not be viewed as a saving funds available for other purposes. At the other extreme was the argument that for young people there are needs such as housing acquisition, that have greater priority than retirement income. However, proponents of this argument recognize the need for locking-in at some point because one of the principle reasons for inadequate funding of pension plans is the premature cashing in of contributions. It was also recognized that locking-in without portability could greatly reduce the mobility of workers especially as retirement age draws near.

Impact of Pension Plans on the Economy

Pension funds in aggregate are a large part and are becoming an increasingly large part of the supply side of the capital market in Canada. Some concern was expressed that control of such a large pool of capital by either the government or a small group of financial institutions would lead to an undue concentration of power. At the moment, most of the control of the funds is in private sector and after being told that with the growing popularity of trust administered funds a trend towards private concentration of power was not likely, the delegates directed their attention to other issues.

The questions of whether or not pension plans reduced labour mobility and whether or not this was good were also addressed from time to time throughout the day. Although, pro and con arguments for both questions were

presented, there did not seem to be a great deal of interest with these issues on the part of the delegates. One inference from this lack of interest could be that labour mobility is not greatly influenced one way or the other by pension plans; another inference, of course, is that the delegates do not know what the macro effect of pension plans on labour mobility is.

There did not seem to be any strong desire amongst the delegates to debate at length the question of whether or not the government controlled pension funds should provide provincial governments with loans at below market rates. However, there was a general feeling that provincial governments should not be subsidized in such a way, because the practice is not good bookkeeping. The savings to the taxpayer because of subsidized loans would only be lost to increased pension contributions or taxes to maintain pension benefit guarantees. There was also some concern that subsidized loans might tend to encourage investment by government in marginal projects, projects they might not have otherwise initiated.

The main concern of a macro nature amongst the delegates was the influence of inflation and of pension income indexing on the cost of pensions, and that the rising costs portended the demise of individual funded plans in favour of universal government sponsored pay-as-you-go schemes. Although, some of the delegates were in favour of universal pay-as-you-go schemes, most of the delegates wished to minimize inter-generational transfers and thus favoured funded schemes. This desire of the majority of the delegates

was justified by the belief that each individual had a social responsibility to provide for his own retirement income to the best of his ability. Thus the government's responsibilities are

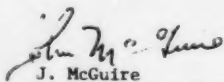
- i) to insure that every individual meet this responsibility and
- ii) to supplement the retirement incomes of those individuals who for one reason or another can not provide themselves with a sufficiently large income to live in dignity in their post-retirement years.

This belief also explained the advocacy on the part of the delegates for fuller vesting, greater portability, more rigid locking-in provisions, and stricter compulsory regulations.

In other words, and this is perhaps the most important lesson to be learned from the seminar, if the delegates represent public opinion, pension plans are now perceived by almost everyone as part of the 'wage package' (retirement income is earned but deferred income) rather than as a reward or bonus for long service.

Many problems surfaced during the day. This summary report which is intended to only note the points of consensus did not mention them all and the ones it did mention, were only treated in a superficial way. Much reform is required and the reform must be based upon the premises that retirement income is earned but deferred income and that at least part of earned income be deferred by government compulsion. A second lesson to be learned from the seminar, is the general belief on the part of a group of experts (the delegates) that although inflation may be the chief instigator of reforms, inflation itself presents no insurmountable problems.

Finally, the delegates felt that the initiative to resolve the differences of opinions and to implement the needed reform was the responsibility of this Pension Commission of Manitoba.

A handwritten signature in dark ink, appearing to read "J. McGuire".

J. McGuire
Executive Secretary and
Research Director

2.

Expectations and Economic Realities

John McGuire
Research Director
Economic Development
Advisory Board

Introduction:

This morning, I intend to review the basic issues that surface in any discussion of private and public pension plans from the perspective of someone trained as an economist.

Hopefully, such a review will give those of you, who are not economists, some new insights into familiar problems, similarly, as the day progresses, I know that I will gain new insights from people with different perspectives. To learn from one another, of course, is the primary purpose of this seminar.

Definitions:

The perspective I will take is macro. In other words, pension plan problems will be reviewed from the point of view of society as a whole. From this perspective it is convenient to think in terms of equity and efficiency, equity to an economist, refers to fairness and is essentially subjective in nature. It is unlikely that everyone will agree entirely as to what is fair. Therefore, the equity of pension plans from a social point of view should be measured by the degree to which all citizens view them as fair and just. Efficiency, simply put, refers to the influence pension plans have on the performance of the system as a whole in achieving the goals of society; efficiency is a broader concept than productivity.

Pension plans are formal commitments to guarantee the provision of income as a right to workers after retirement from the work force. The right to such

income can be justified in one of two ways (or in some combination of the two). First, a tax or a compulsory levy can be imposed upon the income of people who are working in order to provide pensions for those that are retired. In this way the working person earns the right to expect income from a similar source when he reaches retirement age. Pension plans based on this rationale are usually referred to as 'pay-as-you-go' schemes. Second, the imposed tax or levy is not transferred directly to pensioners but is used to generate wealth through investment in capital. Contributors to the plan then have a right to income in the form of investment earnings. For the sake of identification in this paper, pension plans based upon this justification shall be referred to as 'funded' plans. It should be noted that the compulsory nature of the levies under both types of plans are 'forced savings' and in return for this compulsion, pension plans reduce the risk to the contributors by guaranteeing some minimum level of pension. In other words, all pension plans have two features; they all provide, as a right, incomes to people upon retirement, and some security or guarantee to this income, again as a right.

Of course, the above description of pension plans is simplistic and requires much qualification and elaboration before it could be viewed as a definitive. Nevertheless, such a simplistic description permits the focussing upon important social issues without getting enmeshed in the technicalities of individual plans. No doubt later in the day, as the debate develops we will have to consider the technicalities of individual plans but for the moment I would like to paint with as broad a brush as possible.

My argument with respect to equity is that given present trends, pension rights and obligations as they now exist need to be re-evaluated and that the problems which necessitate this re-evaluation cannot be completely erased

by merely designing more efficient pension schemes to achieve the existing goals of pension. Value judgements have to be made.

Given current demographic trends, inflationary pressures, existing government regulations and rising expectations with respect to such things as early retirement and pension benefits, the annual share of national income going to pensioners will rise drastically in the near future. This means, of course, that the level of pension contributions (in whatever form they may take) made by the work force must also rise drastically. To cite but one example, Health and Welfare Minister Marc Lalonde has been quoted to have said that according to the best estimates of government actuaries, the Canadian Labour Congress proposed reforms to the Canadian Pension Plan could require an eventual pay-as-you-go contribution rate of 30.25% of employment earnings. As nice as it may be for all of us to look forward to our retirement years with the knowledge that there will be an adequate and secure income accruing to us, the massive redistribution of income necessary to achieve such an objective needs to be justified. Personally, a 30% rate of saving to provide for my retirement years is much too high. In light of various estimates of the required costs for pension plans, surely we need to review the equity of such things as the size of pension contributions, the size of pension benefits compulsory versus non-compulsory membership in the plans, age of retirement and compulsory versus non-compulsory retirement.

Given the demographic trends, and little can be done to alter them - value judgements about pension plans cannot be evaded. Although it is argued by many that an effective attack on inflation would significantly reduce costs I am sceptical. Even with stable prices, the relative distribution of income among pensioners compared to other sectors of the population has to increase

if present trends in expectations continue. Is this projected re-distribution fair? What is the proper degree of compelled participation? What is a fair pension benefit? Should retirement be compulsory and universal and if so what is the proper age of retirement? Upon whom should the incidence of the pension contributions fall? Although I am dealing with equity considerations we should not forget that answers to the questions just posed will also influence the efficiency and productivity of our economic system.

The hard decisions that must be made concerning these questions cannot be completely erased by altering legislation, designing better plans or halting inflation. No doubt costs could be reduced with better plan designing and a lower rate of inflation but fundamental trade-offs must still be made. There trade-offs are most easily seen when pay-as-you-go schemes are considered. However, they exist for funded schemes as well.

This latter assertion, perhaps, needs to be justified because at a superficial level it does not appear to be true. It can be argued, for instance, that a 'funded' scheme, by increasing our wealth in capital stock will increase aggregate income, at least, in proportion to the increase in pension payments. Therefore, the real income (the standard of living) of the working force will not be reduced, in fact it will probably be increased. Such an argument needs to be debated on several grounds.

First it can be argued that because the propensity to save on average within a nation is approximately constant over time, the introduction of pension plans does not increase the volume of savings but merely channels it into different lending institutions. If this is so, then the amount of capital formation via domestic savings is not increased over what it would be under

other circumstances and hence aggregate income will not increase at a faster rate. Given such logic, all that pension plans will do is to give pensioners in any one year a larger share of aggregate income. This aggregate income will not have increased over the level it would have attained in the absence of pension schemes.

Second, there is the argument that investment demand is unresponsive to changes, in the volume of savings. An increase in saving - the supply of investment funds - will not generate its own demand; it will only dampen the upward pressure on interest rates and aggregate consumer demand. Given the current projections of an excess of investment demand over available savings for the next few years this whole argument loses some relevance.

A third argument is that if governments control a large portion of the pool of savings generated by pension plans, investment will be made in social capital (non-income generating capital). Thus, the interest payments for these savings will have to be obtained from elsewhere. The equity and the efficiency of government controlled funds are whole areas of debate in themselves. By way of a small digression allow me to throw this one dart. I am not convinced that below market interest rates charged to provinces for loans from the Canada Pension Plan Fund is really robbing future generations.

To conclude the review of equity considerations I will repeat my main argument. If the costs of pensions are going to increase drastically, pension rights and obligations must be re-examined. The costs cannot be evaded by designing a better pension system because essentially pension rights involve in any one year a re-distribution of current income. Either we must accept the costs as equitable or we reduce the size of the benefits.

Efficiency With Respect To Labour

Pension plans influence the efficiency of the economy most directly in two major markets - The Labor Market and The Capital Market. Let us look at each separately.

With respect to the demand side of the labor market, the traditional argument to justify an employer's desire for an employee pension plan was that pension plans will reduce labour turn-over. Such a reduction in labour mobility is of questionable value to the individual employer and from a social point of view such a reduction in labour mobility could reduce the efficiency of the economic system by reducing the allocative effectiveness of the labour market. However, based upon empirical studies there is some evidence to indicate that pension plans do not alter mobility significantly. (There is reference to one or two such studies in your reading material) This whole issue of pension plans and labour mobility merits some debate.

Currently, a more important reason for employers to favour pension plans seems to be the desire to be able, in good conscience, to retire older but long service employees. From a strictly business point of view, older workers can be less productive than younger workers and thus more costly. Also, they tend to occupy the more senior positions and thus retard the rate of promotion of the younger workers. As a result, employers face the real threat of losing young capable people to other employers including governments. Just how costly older workers are to the firms would be hard to estimate but no doubt in some instances could be quite high. On the other hand, on grounds of humanity and on grounds of work force morale - a significant factor in worker productivity - employers cannot simply dismiss workers after they reach a certain age. The only alternative is to provide a pension.

Whatever the reasons businessmen may have for providing pension plans, the costs are quickly escalating to a point where not only are the plans a bad investment for employers but they are beyond the financial capacity of companies. The high rate of inflation, government regulations and employee demands for better pension benefits - in that order - are the three most commonly cited reasons for the escalating costs. Each of these reasons merit intensive debate.

On the supply side of the labour market, we have to be aware that pension plans, especially ones with generous early retirement provisions, can lower the participation rates and thus reduce the size of the labour force. How important this factor is, is unknown but it will probably become more and more significant. It nevertheless reinforces the expected demographic trend of a declining work force to population ratio. At a recent conference in Toronto, Mr. James Paterson, a benefits consultant from Vancouver, cited the following statistics; "50 years ago the ratio of persons over 65 to those between 20 and 65 was 10%, currently its about 15% and by the year 2025 it will be 25%". These factors will tend to lower the supply of labour during a period when according to a study done by the Federal Department of Industry, Trade and Commerce the labour market will be tight. A tight labour market will put inflationary pressures on our economy which is already facing international competitive problems.

Efficiency With Respect To Capital

The potential size of savings pool associated with pension funds hardly needs to be emphasized but for the record I will cite a few statistics. Laurence Coward, Executive Vice-President of Wm. M. Mercer Ltd. has estimated

that a fully funded Canada Pension Plan would require something between \$100 billion and \$200 billion in capital compared to the present fund of about \$8 billion. James Paterson has estimated that within two generations pension funds will own more than 50% of the nation's equity capital and a high proportion of its debt. This is enormous economic power and the important question is who is going to control it? There are only three alternatives, the government, a few large private institutions or many small private institutions. It is my opinion that the third alternative, given current circumstances, is not really in the race. Thus, the issue boils down to this: Will control rest in hands of big business or big government? In either case the market mechanism can be easily thwarted and the repercussions of the choice of investment can drastically influence the whole structure of our economy. To illustrate the potential power of this saving pool I will pose two questions. First, if the savings are in the hands of a few but private lenders what will be the future of the small businessman and is that good for society? Second, if the savings are in the hands of government, what criteria will it use to allocate the savings between social capital - (traditional government investments) - and income-producing capital (traditional private sector investments)?

Conclusion

In brief I have made three simple assertions. First, given present trends, the burden on society of supporting pensioners is going to increase drastically. Therefore, we as a society must accept this burden as just or reduce the benefits accruing to the elderly or insist that the elderly remain in the work force.

Second, pension plans can and probably do have important implications for the efficient use of our labour force. Little analytical work has been

done in this area. Third, given the projected immense size of the capital in the pension funds, we, as a society, must evaluate the resulting implications upon our economy.

I have said nothing about how these decisions will be made - and they will be made - and as a result I fear I may have left the false impression that I believe that the problems can only be solved by first obtaining a public consensus and then by directing the government to institute the required reforms on a once and for all basis. Such a view would be naive.

Although we all are concerned about the broad social issues that I have mentioned, what makes pension plans topical is the concern we have about our own pension plans in light of changing circumstances. Change will come about as the net result of each of us acting in our own interests and thus the effect upon the macro issues will be indirect. I do not believe entirely in Adam Smith's 'Invisible Hand' concept which in essence propounds not only 'what will be, will be' but 'what will be, will be best'. I prefer to think that we can improve the operation of the 'invisible hand' if we have 'enlightened self-interest'. (Incidentally I do not equate self-interest with selfishness) If through dialogue we can see the immediate problems from a wider perspective perhaps we can adopt wiser policy measures.

Inflation, the indexing of pension benefits, existing government regulations and policies, the desirability of fully funded plans, vesting and portability rights are some of the more immediate concerns and the concerns which we should rightly focus upon today. However, we should keep in the back of our minds at all times the effect policy changes will have on the macro issues, for these effects are real and they will affect you.

Summary List Of Issues Touched Upon In This Paper

- 1) What is an appropriate pension income?
- 2) Upon whom should the incidence of financing pension benefits fall upon?
- 3) Should membership in pension plans be compulsory?
- 4) What is the proper mix of public and private plans?
- 5) Should retirement be compulsory and if so at what age?
- 6) What are the effects of government policies and regulations (civil servant pension indexing, and rules for vesting and funding, etc) on private pension plans?
- 7) Do pension plans increase the aggregate level of national savings?
- 8) Is the level of investment demand unresponsive to the level of savings?
- 9) Is the expected level of saving large enough to meet expected investment demand?
- 10) Should loans from the Canada Pension Plan Fund to provinces be at below market interest rates?
- 11) What is the effect of pension plans on labour mobility?
- 12) Is increased labour mobility desirable?
- 13) How costly are older workers as employees to companies in terms of reduced productivity and in terms of reduced promotion potential of younger workers?
- 14) Do pension plans increase worker productivity?
- 15) Does inflation necessarily have to raise the cost of private pensions schemes intolerably?
- 16) Will pension plans reduce the size of the labour force?
- 17) Who should control pension funds?
- 18) Should pensions be fully funded?
- 19) Should vesting and portability of plans be improved and if so how?

Discussion

Mr. E. Heltay

Mr. Heltay began the discussion by responding to Leonard Remis' question on the level of an appropriate pension income. He personally had no answer but suggested that the Canadian Labour Congress had made some recommendations on this issue. He stated that some companies are running into difficulties with their pension plans and have had to raise product prices in order to cover pension costs. Pension plans could be made self-sufficient if compulsion was introduced. When plans are non-compulsory many people do not enter until late in life and end up with insufficient pensions.

Mr. I. Raines

Examples drawn from his personal experience of two large corporations which have successful pension plans were cited by Mr. J. Raines. Both corporations have pension plans which began with employers and employees sharing pension contributions equally. The plans were so well-funded that after 25 years the companies have taken over full financing and the employees pay nothing. Vesting rights continue as they did in the old plan.

Mr. J. Goodison

Mr. Goodison asserted that statistics indicate that private pensions are not doing an adequate job. The major problem with pension plans

Mr. J. Goodison (cont'd)

is that people are allowed to use them as savings funds. There must be a locked in compulsory plan for the full period of an individual's working life. He did not believe that the locked-in provision would reduce labour mobility or that pension plans did not have a positive effect on national savings.

Mr. J. Turnbull

Mr. Turnbull suggested that not enough is heard about pension plans that are working effectively. With increasing productivity of investments without any increase in risk many plans have actually increased benefits while not increasing contributions.

The increasing importance of 'Boards of Trustees' means increased employee involvement in operation of pension plans. Financial institutions are making fewer and fewer decisions in pension plans. Thus Mr. McGuire's fears of increasing concentration of economic power in the hands of financial institutions are not well grounded.

Mr. J. McGuire

Mr. McGuire questioned Mr Turnbull's idea of investment productivity; he believed that this was really inflation. Mr. McGuire stated that he did not think that increases in capital productivity would explain the entire income in the interest rate. He argues that although the issue was one of semantics, it is a good illustration of how different professions will use the same work or expression to mean two completely different things.

Mr. C. Chapman

The influence of inflation on pension schemes was important, Mr. Chapman argued. He stated that the continuation of inflation will make the cost of private pension plans with indexing-after-retirement prohibitively high. The only way to support indexed plans is to take money from those currently working; returns on assets are usually not sufficient to finance such plans. Mr. Chapman cited the French pension system whereby funding is inappropriate due to inflation so current workers 'pay-as-you-go' for retired persons. Those currently working can afford to pay for retired persons' pensions since their own salaries are inflated. However, this scheme depends on two factors: (1) the fellow behind must be willing to pay; (2) the stability of the proportion of working population to retired persons.

Mr. M. Rachlis

Mr. Rachlis disagreed with the importance assigned to the impact of inflation on pensions. He stated that a pension payment is a transfer in the year it is made and is being met out of current income in the year of payment. He argued that, in that context, inflation is an irrelevancy.

He also asserted that the argument that government investment is non-income generating is nonsense and cited long term Swedish experience to support this view.

Mr. Rachlis (cont'd)

Finally, he argued that Canadians do not now evade the cost of supplementing inadequate pensions and already incur the costs of the transfer of current income from earners to pensioners by way of supplementary income transfers to the large proportion of pensioners whose pensions are deemed inadequate by existing standards and by the provision of costly publicly-supported facilities such as residences, nursing homes, and hospital services for low-income older persons. He also drew attention to the high cost to governments of foregone taxes from deferment of taxes on Registered Retirement Savings Plans and similar tax concessions.

Mr. Heltay

In response Mr. Heltay stated that he personally was not willing to allocate 30% of his income to retired persons. Young people are not putting aside much money for retirement, even in Registered Retired Savings Plans. Most of the input into such plans is coming from those persons 55 to 60 years of age who are trying to catch up to a reasonable pension. In his opinion, problems in the pension system will increase as demographic changes occur.

Prof. P. Phillips

Professor Phillips pointed out that increasing female participation in the labour force may affect retirement income; there will then be two pensions and two old-age supplements per family. However, many women are in jobs which do not provide pensions either because pensions are not available or women are not in the job long enough to qualify for the pension plan.

Prof. P. Phillips (cont'd)

In his opinion, there is no way, short of intergenerational transfer, that the problem of inflation can be dealt with.

Mr. W. Templin

Mr. Templin responded to several statements by earlier speakers. First he asserted that pensions have no effect on price-setting by small companies since they must follow the highly competitive prices set by the larger firms. He also felt that an increasing personal income tax rate might be one reason behind an apparently constant national propensity to save. Finally, the favourable borrowing rates attached to Canada Pension Plan funds resulted, in his view, in the reaping of benefits by future generations.

From his personal experience he would say that businessmen have employee pension plans because it is then easier to recruit employees rather than because of any altruistic motives.



3.

The Manitoba Pension Benefits Act in Perspective
(Speaking Notes)

Professor E.R.Vogt, F.C.I.A.
Chairman
Pension Commission of
Manitoba

Pension benefits legislation in Manitoba is not complete. The Pension Benefits Act was given third reading last June. Parts I and II were proclaimed last January. Part II, the operative part of the Act, was to be proclaimed sometime after April 1st. Currently, Bill 46, An Act to Amend the Pension Benefits Act, has received first reading. Regulations, as provided in Part III of the Act, have not been formulated.

A wiser man would probably pause here - contemplate - and then decline to speculate. I will press on. It must be recognized, however, that my remarks will often reflect expectations, rather than realizations. I hope they will be accepted in that light. Certainly, I will try to avoid embarrassing the government and my colleagues on the Commission. Also, I do not wish to pre-empt the proper prerogatives of government.

Pension legislation in Manitoba which is expected to be fully operative by October 1st, 1976, will be very similar to existing legislation enacted between 1965 and 1967 in Ontario, Quebec, Alberta, Saskatchewan and by the Federal Government. Nova Scotia will probably be operative on January 1st, 1977. In British Columbia where legislation was being considered a year ago, appears now to be in limbo. New Brunswick, Prince Edward Island and Newfoundland are without coverage. In the U.S.A., somewhat similar legislation came into being with ERISA (Employee Retirement Income Security Act of 1974), although it has some unique features (e.g. pension plan insurance), goes a few steps further and is much more complex.

The objective of the Manitoba Act are essentially threefold:

- i) to make as certain as possible that pension plans will make good on their promises - that is, will in fact provide the income expected when employees retire.
- ii) to encourage employers and employee groups to improve benefits.
- iii) to encourage employers who do not currently have a pension plan to introduce a satisfactory plan.

Protecting the promises made by pension plans has many ramifications. First, there must be an orderly funding approach involving, as far as possible, the setting aside of funds in the year an employee earns the benefits. This requirement is important particularly, if one accepts the premise that pensions are part of the wage package. Second, the funds should be held in trust for their primary purpose - it should be impossible for the employer to divert the funds toward other purposes and very difficult for the employee to do so. Third, the funds should be in securities that are largely immune to loss by default. The emphasis here is on a yardstick that measures security on the assumption that a pension plan will continue into the foreseeable future. Yet there must be a yardstick that will allow for the fact that a plan may be discontinued. Funds satisfying the first yardstick may not satisfy the second. Finally, employees must be provided with much better information so that when the right to withdraw money from the plan is exercised, it is done with a clearer understanding of the consequences - the consequences usually include the loss of all pension benefits earned and, particularly, any funds contributed by the employer on the employee's behalf. The legislation attempts to achieve all of these ends, either by direction or by persuasion.

The improvement of benefits and the increase in the number of pension plans must at this time remain a matter of education, dissemination of information, and gentle persuasion. The legislation does not compel employers to have a pension plan. At present, the only compulsion comes from employee groups bargaining with an employer. It is difficult to conceive of further incentives, such as tax relief, that would change the situation materially. Compulsion may ultimately prove the only satisfactory answer, but this should be approached with great caution and some trepidation.

The Act covers all pension plans in which an employer contributes to the pension plan. It includes all plans sponsored by the Province and these plans must meet all requirements of the Act except the funding requirement - the funding is considered acceptable if the Province or the Federal Government guarantee the benefits. Similarly, all insured plans, where a life insurance company guarantees all the benefits and meets the requirements of the Insurance Companies Act, are held to be acceptably funded. Coverage extends to all inter-provincial plans with one or more employees in Manitoba to the extent that all must conform to the Manitoba Act for purposes of Manitoba employees. Initially, we expect to oversee nearly 2,000 plans enrolling approximately 130,000 Manitoba employees.

The Act attempts to set minimum standards, not ideal standards. This cannot be overlooked. I must also reiterate that the Act does not require a pension plan to be set up or continued - this remains the option of the employer and the employee group involved, who are left quite free to design the benefit structure and only then become subject to the Act. This has an important bearing on a number of important features of the Act.

Vesting, portability and locking-in are three features that invariably cause considerable reaction and often are sadly confused. Vesting means that an employee has a right to money contributed by the employer on the employee's behalf - even if the employee terminates employment. The Manitoba Act calls for full vesting after ten years service, regardless of age. The vested right is available only in the form of a deferred annuity, providing an income at the normal retirement age. If the employee is under age 45 and exercises the right to withdraw the accumulated employee contributions in cash, then the vested employer money is forfeited. Sadly, statistics show that the vast majority of employees under age 45 exercise the right to cash in and this is one of the prime reasons why so little pension money remains to retirement. Manitoba is not uniform in the vesting requirement. All other jurisdictions require full vesting only after both 10 years service and attainment of age 45.

Portability is a term that is usually used as a synonym of vesting. It can mean more. It can mean the transfer of funds from one pension plan to another - usually through a reciprocal agreement between the plans. It can further mean the preservation of certain underlying guarantees (e.g. benefits related to final average salary) from one plan to another. The Pension Commission has been directed to facilitate such portability, but the practical problems associated with transferring funds and of transferring benefit guarantees, including the signing of reciprocal agreements, can become very complex.

Locking-in means that neither the employer nor the employee may withdraw money in cash. All jurisdictions require that locking-in of all vested benefits must occur after both 10 years service and attainment of age 45. This does not sit well with employees. Employees have always considered their own con-

tributions a form of savings, which they can freely attach and spend as they see fit, if they terminate employment. As a compromise, all jurisdictions permit an employee to cash in 25% of all vested benefits after locking-in occurs - this is 25% of the total arising out of both employee and employer contributions and without forfeiting the remaining 75%.

Vesting, portability and locking-in all tend to increase employer costs. Usually the increase is quite small, but it can, in the rare instance, exceed 30%. Further, there is the anomaly that it will often hit hardest the employer who is already doing the most for the employees. Improvement is definitely needed in these areas, but better information on costs is required or the impact of such improvements could lead to a regressive termination of plans.

"Regulation of pension plans is primarily one of Provincial jurisdiction". Certainly, "the regulation of private pension plans remains strictly that of the Provincial domain". (Premier Schreyer - Manitoba Hansard, pp 3752, June 11, 1975) However, the advantages of having uniform legislation across the country should be obvious. To this end, the provinces with similar legislation and the Federal government have signed reciprocal agreements and formed C.A.P.S.A. (Canadian Association of Pension Supervisory Authorities). The reciprocal agreements provide that normally an employer will have to submit to detailed regulation in only one jurisdiction - the jurisdiction in which the greatest number of employees are located. This jurisdiction, called the major authority, will then check the pension plan for compliance with all of the Acts concerned. C.A.P.S.A. operates as a voluntary grouping providing a forum for exchanging information, making recommendations toward more uniform legislation, studying the more complex problems (such as funding, valuation of liabilities, valuation of assets) and periodically providing a public forum so that interested employee, employer and social action groups may influence regulation and development.

This national co-operation is necessary and useful. However, we must not overlook the local forum as an instrument of social change. In any event, Manitoba expects to sign reciprocal agreements and become a formal member of C.A.P.S.A. in the near future.

So much for the details of the Manitoba legislation. Where does all this fit into the greater scheme of things?

Retirement means many things. It should mean freedom from further obligation. All too often it means a denial of further opportunity, a divorce from the community and a general feeling of worthlessness. A recent report on China provides a particular perspective.

"An old man or woman will live with a grown son or daughter. Their small government pension guarantees them independence, it is also deeply appreciated by old people who have no family and live in a Home of Respect for the aged. The elderly will do simple but important work, so they will feel part of the community. At times an elderly person will go to the school and tell the children what life was like just a few years ago". (Mary Kowalchuk - "Touring the Peoples Republic of China" -)

That sounds like pages out of the past or a fairy tale, it would not be an acceptable solution here - but???

In most parts of the world and in parts of Canada, people still follow a simple retirement formula. During the active lifetime ample contributions to the family fund are made in the form of children. It is hoped that not all of these contributions will become dissipated, but that the fund will grow in value and will ultimately provide ample protection, continuing evidence of a life of accomplishment and even a sense of immortality or continuance. Now, many consider this form of pension planning a vice. However, the simplistic or primitive schemes of the past and present always integrated all aspects of retirement. In contrast the modern, progressive schemes concentrate on providing dollars or vouchers to secure the material

needs of the aged and treat this provision as a separate function. Thus we have moved forward toward a scheme of things which a former Dutch Minister of Social Affairs has described as a jungle rather than a coherent system. (Annette E. Bosscher - "Benefit Trends of Social Insurance Schemes in the European Community" - IBIS, September 1975;- represented in Air Canada Pension Scrapbook, February 1976, pp. 15.)

In Canada, we have first the universal flat benefit provided by Old Age Security; this is followed by the earnings-related Canada Pension Plan, which is compulsory for all employed persons; this in turn, is followed by the employee pension plans, called private pensions or supplementary pensions, provided for many employees in both the private and public sectors; in addition or for the self-employed, we have the R.R.S.P. plans (Registered Retirement Savings Plans), which allow tax-deductible contributions; then we have the individual savings of persons; and, finally, for many who still have not achieved an acceptable subsistence level, we have the Guaranteed Income Supplement, based on need. I think that covers everything.

Somewhere in the middle of this scheme of things you will find private pensions and that is the first order of concern of the Pension Benefits Act of Manitoba. However, one cannot plan effectively in this domain without understanding the rest of the retirement community. One must also remember that the concerted aim of all of the above is to affect an orderly transfer of goods and services from the productive sector to the aged and generally non-productive sector of the community. (Money - money - money! Or, as Charles Dickens might have put it: while money cannot buy happiness, at least, in the schemes of things, the aged are given some choice as to the kind of misery they wish to endure.)

How successful are the arrangements for retirement in Canada? It is easy to conclude that, individually, they have all fallen short.

Old Age Security was intended to provide an income at a decent subsistence level when it was first introduced. The very fact that many people are eligible for some income under the Guaranteed Income Supplement suggests an element of failure in OAS.

CPP/QPP was intended to provide both an additional income to the producer and to build up a considerable fund for investment in the community. Recent reports indicate that CPP/QPP is rapidly heading toward a pay-as-you-go basis, instead of providing further capital formation. This is in line with Federal government intentions at the time CPP was introduced, but completely contrary to the aspirations of Quebec, when they designed QPP, and with the partially funded compromise finally reached, I would consider this erosion of fund and purpose a distinct failure.

The private pension area has served some persons quite well but many very poorly. The problems are more varied than the plans designed to solve them. Too little money was put into the kitty in the past. Too many employees changed jobs too often and received no real coverage. Many plans were not designed to meet with current conditions, etc. etc, etc. Certainly there have been many elements of failure here.

There are also real elements of success. The government plans have provided more or less, income to all the aged - certainly much more than nothing - and a fair amount of capital formation for provincial use. Private plans have provided income to many - very satisfactory income to some - based in large part on individual and employer initiative. Capital formation has been very substantial and most important to both the private and public sectors. This must be borne in mind when we plan for the future.

Here are some of the questions and challenges as I see them:

- (1) Private plans can and must be improved in the areas of acquiring rights to benefits, the level of benefits, protection of benefits against erosion of purchasing power, coverage of dependents and a general extension of employees covered.
- (2) Vesting should be full and immediate. Some caution must be exercised in moving toward this goal because of the impact on employer costs and administrative difficulties.
- (3) Locking-in presents a more vexing problem, but there should be moves toward earlier locking-in. Maybe pension plans should serve a two-fold purpose: under age 35 as a savings approach to purchase a home; and over age 35 as a vehicle for retirement.
- (4) I cannot accept the three tier concept of pension without getting tears in my eyes. A two-level analysis seems much more understandable. The first level, as a human right, should provide a reasonable subsistence to all elderly persons. Old Age Security, like iron pills should be viewed as a geriatric measure. The second level should be earnings-related and can only be justified by the well-established right of being able to enjoy the fruits of one's labour. Many arguments can be advanced for an element of government intrusion here - the question is how much, rather than whether? I am not at all convinced that more is necessary or useful.
- (5) There could be some useful purposes served by provincial entry into the pension field. Entry could take the form of providing a fund to facilitate portability and as a dumping ground for small, vested benefits. It might also take the form of augmenting either OAS or CPP, or even of supplanting CPP with an MPP plan, like the QPP.

- (6) Capital formation as a necessary adjunct of private pensions cannot be overlooked. Public pensions do not provide a good alternative. Private pension capital formation can play a relatively unique and important role.
- (7) how much legislative compulsion, in addition to incentive and persuasion, is necessary to assist or force the private pension field to fulfil its function?

These comments should provide some food for thought.

I have deliberately gone well beyond my role as Chairman of the Pension Commission of Manitoba and beyond my professional expertise as an actuary. I hope this will stimulate discussion.

The Pension Commission of Manitoba serves as an advisor to the Minister, and through the Minister to the Government. Our function is to give the Minister the best possible understanding of the pros and cons of various alternative courses of action in this complex field. To fulfill that function we need time, calm deliberation and the constructive input of all possible interested parties. In part my remarks were structured to elicit such input from you.

In closing, I would like to remind you that the program bills me as a "discussion leader" and not as the prime target for today.

Discussion

Mr. A. Coulter

Mr. Coulter, in response to Prof. Vogt's presentation, stated that legislation for retroactive vesting was introduced in 1964 but was left on the order papers and never proceeded with.

Mr. J. Goodison

The issue of pension uniformity among provinces was raised by Mr. J. Goodison. He felt that pension uniformity required similar political climates in all provinces. Employers have a responsibility to provide vesting, he stated, but it is difficult to convince employees to leave their contributions in a fund. Many employees still regard pension schemes as savings plans and as a result the problem of less-than-sufficient retirement income persists.

Prof. E. Vogt

Prof. Vogt then asked why there are no union-negotiated plans with locking-in provisions if this is, in fact, labour's position.

Mr. J. Goodison

Mr. Goodison responded that labour groups do not necessarily want to negotiate locking-in provisions. Rather, pensions are viewed as a right, much as health care was a few years ago.

Mr. R. James

A trend in private pension plans to circumvent locking-in was pointed out by Mr. R. James. He felt that employees want the option to get out of

pension plans and will increasingly turn to Registered Retirement Savings Plans.

Mr. J. Turnbull

Mr. Turnbull stated that he would like to see the primary objective of the Pension Benefits Commission carried out, namely, to promote the extension and improvement of pension plans throughout the province. He called for a review of existing legislation to ensure that no legislation exists which make it more difficult to set up pension plans in Manitoba.

Mr. M. Rachlis

Mr. Rachlis disagreed with the argument that pensions are not deferred wages. He urges that pensions, like other fringe benefits, are part of the wage 'packet' and that the magnitude of wage settlements are directly related to the imputed value of the pension and other fringe benefits negotiated under collective bargaining agreements.

Prof. E. Vogt

Prof. Vogt replied that such a change would require alteration of the legislation.

Prof. P. Phillips

The introduction of a provincial pooling fund for transferability of pensions, especially for young people, was suggested by Prof. Phillips. He felt that such a fund would make young people more willing to enter the pension stream.

Mr. C. McBain

Mr. McBain questioned the validity of locking-in pension contributions. Since pensions are one source of capital for an individual to start-up a business, locking-in would take away an important right.

Prof. O. Tangri

The question of extent to which there exists a danger of thwarting market forces if pension plans are in the hands of big business or big government was posed by Prof. Tangri.

Prof. E. Vogt

Prof. Vogt responded that he could not answer that question since he did not hold that type of macro view.



4.

Special Concerns - Users and Carriers: A Panel Discussion

Panel Members: Mr. J. D. Green, Group Manager, Great West Life Insurance Co. Ltd.

Mrs. Yhetta Gold, Executive Secretary, Age and Opportunity Centre

Mr. Art Coulter, Executive Secretary, Manitoba Federation of Labour

Mr. John Bulman, President, The Bulman Group

Written presentation by
Mr. J. D. Green

The present pension system in Canada is often described as a three-tiered structure. The base of the structure is made up of Old Age Security Benefits, the Guaranteed Income Supplement, and Provincial Supplements, all of which are funded through general taxation. The Canada Pension Plan and Quebec Plan provide a second level of pension benefits to those Canadians contributing to the Plans during their working life time. Finally, many Canadians have a third level of pension benefits funded through private pension plans.

The title chose for this Seminar is "An Enquiry into the Future of Public and Private Pension Plans". This is a very timely topic since there are many in this country and probably a few in this room who are suggesting that there is no future for the private pension system in Canada. It is being suggested that the existing government plans should be expanded or new government plans developed to provide an adequate retirement income for all Canadians.

These suggestions to extend the scope of publicly financed pension arrangements are not just idle suggestions. First, you are all aware of the proposal put forward by the Canadian Labour Congress to increase the Canada Pension Plan benefits to a level of 75% of pre-retirement earnings, payable at age 60, and fully indexed after retirement to keep pace with changes in the cost-of-living. Another proposal entitled "Pensions in Canada, Proposals for Change," was recently prepared by Martin O'Connell, the Liberal Member of Parliament for Scarborough East. His proposal calls for Canada Pension Plan benefits to be increased to 50% of final earnings. On a provincial basis, the Government of Saskatchewan is presently examining the feasibility of a universal, compulsory pension plan for all Saskatchewan residents which would replace all private plans in the province. While this study has had little or no publicity so far it is not a new development. The Saskatchewan Superintendent of Pensions began studying the feasibility of a provincial plan a few years ago and at the present time the question is being studied by a government committee and it is certainly not a remote possibility that Saskatchewan could proceed.

And there are many other serious proposals for extending the public pension plan system in Canada. In examining the rationale for each of these proposals, one finds that in each case it is claimed that the private pension system in Canada has failed to do a satisfactory job. More specifically it is claimed that only a small percentage of the working population is covered by private plans and that private plans lack portability. Let's spend a few moments examining each of these claims.

Those advocating an extension of the public pension system claim that

private plans only cover 40% of the work force in Canada. The 40% figure was developed by Statistics Canada and, as is so often the case with statistics, it is quite deceptive and misleading. For one thing, most private plans restrict eligibility to age 25 or age 30 and one or two years service. Also, many private plans are not compulsory and where this is the case most younger employees choose to not participate. Another fault with the 40% statistic is that the work force used in developing the figure included part-time and temporary employees as well as employees over age 65. Normally these employees would not be eligible for participation in private pension plans. Also, the 40% figure did not consider those individuals who are accumulating retirement savings through Registered Retirement Savings Plans or Deferred Profit Sharing Plans. Most importantly, the 40% statistic ignores the fact that present government programs provide a generous retirement income in relationship to pre-retirement earnings for those at the lower end of the wage scale. In summary it has been claimed by a member of the Ontario Pension Commission that approximately 80% of the working population in their prime working years are covered by private pension plans in some form.

The second important claim of those who advocate an extension of the public pension system is that private pension plans lack portability. Unfortunately, this is largely a valid complaint and one that I would suggest that the Manitoba Pension Commission consider.

In establishing the Manitoba Pension Commission, the government of this province stated that one of the principle aims of this body would be to "actively promote the establishment, extension and improvement of private plans through Manitoba, reciprocity between pension plans, and the further

protection of rights under pension plans". To improve the portability of private plans it would be my suggestion that the Manitoba Pension Commission, together with the Canadian Association of Pension Supervisory Authorities, move towards the eventual legislation of:

- . full and immediate vesting of employer purchased benefits
- . earlier lock-in of pension benefits
- . reciprocal agreements permitting transfer of benefits and funds between plans with benefits based upon "final average earnings"

To encourage the improvement of benefits under private plans and the extension of private plans to those employees not already covered, I would suggest that the Manitoba Pension Commission and the Canadian Association of Pension Supervisory Authorities approach the Anti-Inflation Board with the request that pension plans be excluded from the definition of compensation in the Anti-Inflation Act.

In conclusion, I would suggest that the private pension system in Canada is not perfect, but its deficiencies can be remedied. As a young Canadian I would oppose any dramatic extension of government plans that would be funded on a pay-as-you-go basis. We have barely started to fund the present benefits of the Canadian Pension Plan and there are many who are suggesting that the benefits should be doubled or tripled. Just to fully fund the present Canada Pension Plan benefits, contribution rates for both employees and employers should be increased to 4% or 5% of maximum pensionable earnings. I personally don't want my pension to be funded from taxes on future generations. It just isn't fair and I'm not confident that future generations will stand for it. We have seen what has happened to the City of New York and there is little question in my mind that the same thing can happen in Canada if we continue to live beyond our means.

Written presentation by
Mrs. Yhetta Gold

I'd like to talk to you today about a gentleman named Mr. Snow. Mr. Snow retired in 1970 after working since he was twenty. He had worked his way up from being a stock boy to an assistant floor manager position. Mr. Snow during that time, when there were such plans, contributed through his employee benefits opportunities to the pension plan.

During the years that Mr. Snow worked, he purchased a small house in the west end of Winnipeg for about seven thousand dollars. Mr. Snow fought in the second world war. Mr. Snow and Mrs. Snow have two children, of course, a boy and a girl. During the years that Mr. Snow worked and raised his family, his wife did not work, but through careful living, Mr. and Mrs. Snow and their family lived well, comfortably, with the satisfaction that they were working towards their own goals, that they did not owe anybody any money or if they did it was a small loan which was quickly repaid.

Mr. and Mrs. Snow's children finished high school and the daughter became a teacher. The son owns and operates his own neighborhood garage. Both are now married and have children.

During all the years that Mr. Snow and Mrs. Snow lived in the west end, they attended and supported their church. Mr. Snow was a scout leader and Mrs. Snow made girl guide uniforms. Mrs. Snow baked for the church sales, the Community Club sales and helped to stuff folders for the Community Chest

when they used the block plan for collecting community money. Mr. Snow volunteered one evening a week to supervise at the community club and during the baseball season Mr. Snow coached a junior baseball team. Mr. and Mrs. Snow always voted during civic, provincial and federal elections.

As I said at the beginning, Mr. Snow reached 65 in 1970 and retired. He had earned the Canadian right to live in poverty for the rest of his life.

Mr. Snow is now 71 years old and his wife is 67. They are each receiving \$135.43 in pensions from the Canadian Government. Mr. Snow would have received in 1970 \$55.21 and in 1976 75.89 from C.P.P. and the pension that was coming to him from the employees fund where he had worked for so many years, pays him \$100.00 a month. They receive a supplement of \$41.85 each, Mr. and Mrs. Snow's total monthly income is \$530.82.

Mr. Snow is now told that because he owns the house and because he has put aside \$1,200.00 for his wife's funeral and his own funeral, he is not eligible for house subsidies, social allowance, or credit loans. Mr. Snow must meet his costs of property tax, utilities, eye glasses, additional doctor costs, hearing aids, dental care, and any cash outlay for the purchase of medicines (pharmacare hopefully will pay him back in six months, 30% of this outlay less the first \$50.00 of those costs, if he can figure out how to use the pharmacare form). Though he can be eligible for public housing, he would not be at the top of any lists.

At this point, Mr. Snow's wife has become slightly arthritic, a normal condition in aging; he needs glasses, a normal condition in aging; his children have moved to Toronto and want him to visit, his house needs a new roof and his car is eight years old and the garage man says he cannot find the parts to fix it.

This is the point at which our agency is supposed to become involved with this gentleman and his wife. As a social agency we are supposed to be able to convince Mr. and Mrs. Snow, and their contemporaries, that they are The New Generation. They have reached the time in our unique society when they have the absolute right to enjoy themselves, to do all the things they have always wanted to do, to develop new skills, to discover a meaningful life experience, to continue to contribute to their community, and in an all around way to remain active, viable, creative, happy, contributing members of society.

Now we can tell Mr. and Mrs. Snow that they are not entitled to housing assistance because they have a little too much money; that they can go to a theatre if they will put their name on a list for free tickets; that they shouldn't go to movies unless they have a special card and go at those specific hours, that they should never smoke or drink; that their transportation costs should be covered by the bus rate and that other than that, they should enjoy life for the next twenty years.

Obviously, Mr. and Mrs. Snow are planning, thoughtful, careful Canadians. They approach all aspects of their life with care, and anticipated looking after themselves until they die. There was always room in their plan for frugality but never any thought of poverty. But Mr. and Mrs. Snow are typical of current retirees with whom our agency works and it is our concern that though we can suggest a variety of subsidized and sponsored activities for the Snows, that they are really independent people who are controlled by poverty in an economy in which they have not been able to adapt their resources to meet their needs.

There are activities, and programs, and services, certainly minimally funded by governments for the persons we are describing. We as an agency like to think that we have helped some people adjust to their present life style with some retention of self respect, dignity, and a recognition of their feelings and their self worth. Mr. Snow is a staunch Canadian who will do his very best for himself and his wife for as long as he can. He will bear the hardship and his poverty, and his fall from grace for being older, his lack of continuing recognition in the community and his encroaching deterioration, in silence. Mr. Snow is a fine Canadian.

The money systems you are talking about today create the living conditions for all the up-and-coming Mr. Snows. I wanted you to know him a little more personally, and to share with you just a little of his life style. The people you are planning for who will be retiring in the future, will, with some modifications be similar to Mr. Snow. One of the obvious modifications might be that they won't be as silent as they have been because of their growing number. They have political power and can be more active than the elderly in the past in influencing private and public pension systems about their needs.

All the Snows know that money alone does not create a good life, but hopefully Mr. and Mrs. Snow-of-the-future will not live in poverty for the last twenty years of their lives.

Discussion

Prof. C. Barber

Prof. Barber inquired as to whether Mr. Coulter was in favour of increasing contributions to the Canada Pension Plan and having it fully funded.

Mr. A. Coulter

Mr. Coulter replied that he was in favour of increasing contributions but would have to examine more closely whether CPP should be fully funded.

Mr. J. Goodison

Pension plans up to now have not done their job, according to Mr. Goodison. Indexing in its present conception is out of the reach of private firms. He felt that there must be compulsion and universality and that plans must be funded.

Prof. H. C. Pentland

Prof. Pentland reintroduced the problem of vesting when he stated that most young workers do not want their money tied up and wish to remain mobile. Bookkeeping for vested plans get very complicated as the young move about. Yet there are many advantages in vested pensions to all workers. Therefore, by way of compromise he suggested that pension participation not be compulsory until say 30 or 35 years of age and that until such an age there be no vesting (or perhaps five year vesting) but that after 30 or 35, there be immediate vesting.

Mr. J. Green

Mr. Green replied that most plans are already structured in that way; they are compulsory only after 25 or 30 years of age and one or two years of service. He believed that young individuals, given the choice, would rather take the money than leave it in a plan. Therefore legislation to ensure locking-in is required if the retention of younger persons funds in the plan is seen as desirable.

Mr. J. Turnbull

Mr. Turnbull stated that he believed that people will not be as likely to cash in pensions if they are fully informed about the benefits and if all benefits and services are portable. In his opinion, private plans can keep up with government plans. In fact many private plans are keeping pace. Fully funded plans comparable to government pension schemes would cost no more than 6% of earnings.

Mr. A. Coulter

Mr. Coulter pointed out that Mr. Turnbull's remarks support his call for immediate vesting. From his experience the cost of vesting a private plan was infinitesimal.

Mr. J. Bulman

The idea that private firms can afford the same program as the government was rejected by Mr. Bulman. Private firms have no idea what inflation will be. Government, with a pay-as-you-go plan, can just increase payments and then increase taxes.

Prof. E. Vogt

In response to a direct question Prof. Vogt stated that the rule of 40 means that when age plus years of service sum to 40, benefits are fully vested and locked in. This rule was examined at the national level and was not accepted. Therefore Manitoba stayed with 10 year vesting. In final salary related plans employers will likely not have to contribute until employee is age 35. Therefore before age 35, a vesting plan is only vesting the employee's own money and a locked-in plan is only locking in the employees own money.

Mr. J. Bulman

Mr. Bulman pointed out that with a five-year-best-salary average, at age 35 the employer will not be contributing but at age 55 will be paying three times the employees contribution. Therefore, an annuity is required to have this money earlier.

Prof. E. Vogt

In response to Mr. Bulman's comments, Prof. Vogt remarked that the employers' annuity provisions was of little use to the employee who terminated employment before the age of 55. Employees should understand this. In fact some private firms are making profits from the current operations of their pension plans.

Mr. A. O'Brien

Mr. O'Brien inquired as to Mr. Coulter's opinion of a non-negotiated or a non-contributory plan. Should it be vested?

Mr. A. Coulter

Mr. Coulter replied that he believed that an employee should not lose credit for contributions no matter how they came about. The issue of what happens to vested portions when an employee changes jobs should be examined by the commission. Also, there should be some freedom in locking-in. He would not go so far as to recommend immediate locking-in but there should be locking-in at some age.

Mr. R. B. James

Mr. James stated that with or without vesting, the employee will still elect to take his contributions with him unless there is lock-in.

Mr. J. Bulman

The average private company upgrades pension benefits continually according to Mr. Bullman. However, all too often, he continued, we ask what we want without considering the costs. When we couple this with inflation we have disaster. Governments have made it work in that they have no vested interest in combating inflation; their pension plans are indexed.

Mr. J. Goodison

Mr. Goodison stated that he was not suggesting that companies pay all the cost of inflation. However, compulsion in pension plans is needed or there will always be people like the Snows with inadequate pensions. To illustrate his point, he said that in the provincial government more than 78% of employees with more than 10 years of service and under age 45 withdrew their money from the plan; and more than 48% with more than 10 years of service and over age 45 withdrew their money.

Mr. J. Raleigh

Mr. Raleigh asserted that the last thing a young employee wants is full and immediate locking-in due to tax laws on withdrawals. Under federal legislation, an employee who terminates employment is entitled to \$1,000 tax free; if pensions were locked-in fully provincial legislation would run counter to the spirit of these tax laws.

Mr. G. Munroe

Mr. Munro agreed with previous speakers that the main problem with pension plans is the withdrawal of contributions by young people. As long as this practice continues, the plan will not be viable. Locking-in must be compulsory at some stage down the line.

Mr. C. McBain

The concern of business over the pension situation, stated Mr. C. McBain, is that future costs are not known. Another problem in his opinion, is that unions have neglected their responsibility by not negotiating better pension plans in contracts; they have traded off pension benefits for immediate wage benefits. A third point he made was that the individual must assume some responsibility for his future. For instance a person should begin a Registered Retirement Savings Plan or take out life insurance rather than leaving all obligation for income provision after retirement to the employer or government.

Mr. A. Coulter

In answer to Mr. McBain's first point, Mr. Coulter pointed out that unions are individuals and each determines what they want; we (the Manitoba Federation of Labour) can only advise.

Mrs. Y. Gold

With reference to Mr. McBain's statement on the purchase of life insurance, Mrs. Gold reminded the audience that Mr. Snow (a fictitious pensioner) would have to die in order to reap the benefits of his policy.

Prof. P. Phillips

Dr. Phillips pointed out that the implied supposition of the discussion today with respect to the irrationality of the young in withdrawing their pension contributions may be wrong. In fact it may make very good sense to divert funds into something like housing. Another problem he saw was that most people are insufficiently informed about pension plan alternatives.

Mr. J. Bulman

Mr. Bulman disagreed with Prof. Phillips contention that many people were inadequately informed about pensions. He felt that the great interest in Registered Retirement Savings Plans was proof of the degree to which people are informed about pensions.

Mr. R. B. James

Mr. James agreed that most people know about Registered Retirement Savings Plans but felt that few were informed about company plans.

Mrs. Y. Gold

Mrs. Gold believed that most people were unaware of retirement life and did not want to talk about growing old or retiring. A program of public education, broadly conceived is required.

Mr. A. Coulter

Mr. Coulter stated that the insurance industry was losing by not moving ahead to full vesting. Why couldn't vesting be delivered immediately? At the present time, all an individual gets back is his own contribution and some pittance in the form of interest.

Mr. W. R. Templin

Mr. Templin replied that his company has a non-contributory plan and early vesting would represent a substantial increase in initial cost. Pensions must relate to how much the individual earns and how much is put away. Although there do exist second-class citizens, surely our objective is not to equate pension incomes of workers to these people. Let us give the workers some discretion for their future. Pensions are a reward for long service, a reward over and above adequate wages.

Mr. M. Rachlis

Mr. Rachlis disagreed with the argument that pensions are not deferred wages.

Mr. F. W. Speed

Mr. Speed agreed with Mr. Coulter that immediate vesting is desirable, but due to practical problems, five year vesting would be easier to institute. He believed that the private pension system must be strengthened. In response to Mr. Coulter's criticism of the life insurance industry as pension carriers, Mr. Speed pointed out that life insurance was a small part of the pension system and that plans can only be structured to conform with the dictates of the users.

Mr. R. Hendel

Mr. Hendel proposed the following resolution: "Every promise of a pension right made by a government, whether for civil servants or for the public generally, should be funded in such manner that, on the basis of appropriate estimates, the burden on society in supporting pensions will not increase as a percentage of society's income after the promise is made, and that the increase at the time the promise is made be fully made known."

Mr. L. Remis

Mr. Remis stated that he was sorry that Mr. Hendel did not bring this resolution to the floor sooner in the day. The time had come to bring the seminar to an end and as a result the resolution could not be given the consideration it deserved.

The seminar was adjourned at 4:30 p.m.

Appendix A: Luncheon Address by Premier Edward Schreyer

PREMIER DEBUNKS GUIDES

(As Reported in the Winnipeg Tribune, May 5, 1976)

Premier Ed Schreyer called the Anti-Inflation Board guidelines "a dead dodo" Tuesday, saying it would be only "another seven or eight months before they are knocked on the head."

This would be about the end of the year, the time Mr. Schreyer said earlier he would serve notice whether Manitoba would renew the 18-month agreement it signed in February.

If the premier's latest and most disillusioned assessment to date is correct, the guidelines themselves will not survive even through the planned August, 1977 expiry of the province's participation in the program.

When the federal program was announced last October, Mr. Schreyer gave it qualified endorsement. "It's not a case of being enamored with this type of program ... but rational, deliberate action is better than sitting back and cursing at the darkness."

He said he was concerned whether the program would hold down prices and profits as effectively as it would wages, but he told the Winnipeg Labour Council in December that unions should not "scuttle the program," before it had a fair chance to succeed. He also said unions would be morally justified in ignoring the program if it failed to restrain prices and profits.

At the end of January, unionists marched on the Legislature and jeered as Mr. Schreyer told them: "I personally believe they (the controls) can be effective in controlling prices." Again he emphasized that his support for the program was limited, and said he hoped people "would shoot down" the

program if it hadn't proved itself effective by the end of this year.

In February, at the NDP annual convention, he stemmed a union-led assault on provincial participation in the federal program.

"With its warts, with its imperfections ... with their almost crude, semi-cynical endorsement of equability, these guidelines are better than none at all," he said then. Later that month, Manitoba signed the agreement bringing provincial and municipal employees under Anti-Inflation Board scrutiny.

His remarks Tuesday came at a luncheon during an all-day seminar on the future of pension plans, sponsored by the Manitoba Economic Development Advisory Board.

The context was a speech on the themes that have been dominating his utterances for some time - inflation, consumption, resources, comparative lifestyles.

Indexing of pension plans for inflation "should go without saying," Mr. Schreyer said after seminar participants had spent the morning telling each other about the undesirability or impossibility of indexing private pension plans.

"If that means a higher input from current earnings, then that is what must be," the premier said. "Otherwise there will be a growing consumption of luxury items at the price of future stability: inadequate preparation for tomorrow owing to increasing consumption today."

Reminded of employee resistance to higher pension plan deductions by an audience questioner, Mr. Schreyer said:

"Will we ever face up to asking what we can spare from the good life to contribute to our future? We have become used to a lifestyle of consumer expectation - the ultimate dilemma facing more responsible future funding of pensions."

Inflation is chiefly caused by lifestyle, he said, and "can be beaten by indexing everything, so that no one has anything to gain from inflation. Indexing should restrain those least disposed to restrain inflation."

It was a way of breaking the inflation psychology - a matter in which, he said as he declared the anti-inflation guidelines dead, he had become disillusioned with groups ranging from the Canadian Labor Congress to upper income earners.

The premier said pension plans were the most systematic way of saying: "and we need a saving ethic - meaning a cut in consumption. I see a political dilemma in this, but not an economic one."

Human dignity, he warned, lies in relations between people, and there can be no dignity for the retired if their standards of living is blatantly below that of other sectors - and the dignity of relations between sectors "can be improved only by lessening inequality, not by perpetuating it."

Appendix B

DELEGATES IN ATTENDANCE

W. E. Alward
Manager of Special Client Services
Turnbull and Turnbull Ltd.

C. L. Barber
Professor of Economics
University of Manitoba

G. W. Battershill
Management Committee of Cabinet
Government of Manitoba

S. Bedosky
Labour Affairs Officer
Labour Canada

J.M.L. Bubnick
Research Assistant
Women's Bureau
Department of Labour
Government of Manitoba

W.J.A. Bulman
President
The Bulman Group

A. Cerilli
Canadian Brotherhood of Railway
Transport and General Workers

J. Corp
Actuary
Charles A. Kench and Assoc. Ltd.

A. Coulter
Executive Secretary
Manitoba Federation of Labour

C. D. Chapman
Director
Group Pensions
The Great West Life Assurance Co.

A. E. Davis
Administrative Assistant
Allied Farm Equipment Ltd.

A. Edgar
Great West Life Assurance Company

M. B. Furlong
Benefit Plans Administrator
University of Manitoba

J. C. Gilson
Vice-President
University of Manitoba

Y. Gold
Executive Secretary
Age and Opportunity Centre

J. V. Goodison
Grand Lodge Representative
International Association Machinists
and Aerospace Workers

J. D. Green
Group Manager
Great West Life Assurance Company

L. W. Hargrave
Personnel Benefits Administrator
James Richardson and Sons Ltd.

E. A. Heltay
President
E.B.P. Consultants Group Ltd.

R.J.S. Hendel
Manager
Pensions
William M. Mercer Ltd.

F. L. Hinings
Personnel
Industrial Relations Manager
Bristol Aerospace Limited

G. Holland
President
Manitoba Telephone System

T. Jacob
President
Trunk Investments Ltd.

R. B. James
Manager
Canada Trust Company

J. C. Kennedy
Manager
Marketing
The Royal Trust Company

C. R. McBain
President
Ancast Industries Limited

J. S. McCallum
Associate Professor
Administrative Studies
University of Manitoba

H. McMell
Canadian Food and Allied Workers

R. Mulvihill
Personnel Assistant
Cargill Grain Company Ltd.

G. Munro
Executive Secretary
Winnipeg Labour Council

A. J. O'Brien
Superintendent
Pension Commission of Manitoba

W. Parasiuk
Secretary
Planning Secretariat of Cabinet

H. C. Pentland
Professor of Economics
University of Manitoba

P. Phillips
Associate Professor of Economics
University of Manitoba

G. Puri
Division of Social Security
Department of Health and
Social Development
Government of Manitoba

R. Purser
Business Writer
Winnipeg Tribune

M. Rachlis
Planning Secretariat of Cabinet
Government of Manitoba

J. Raines
Secretary-Treasurer
Winnipeg Labour Council

J. D. Raleigh
President
J. D. Raleigh and Co. Ltd.

B. L. Scarfe
Associate Professor of Economics
University of Manitoba

W. E. Shields
Partner
Clarkson, Gordon and Company

T. Shillington
Reporter
Winnipeg Tribune

D. M. Smith
Actuary
Turnbull and Turnbull

F. W. Speed
Actuary
The Canadian Life Insurance Assoc.

G. L. Stoddart
Assistant to President
Silpit Industries Limited

O.P. Tangri
Professor
Department of Agricultural Economics
University of Manitoba

W. R. Templin
Vice President and Secretary
Gambles Canada Limited

J. A. Turnbull
Actuary
Turnbull and Turnbull Ltd.

R. M. Vaccher
Manager
The Canadian Life Assurance Company

E. R. Vogt
Chairman
Pension Commission of Manitoba

R. S. White
Vice-President and Manager
William M. Mercer Limited

N. Wichenki
President
GAIU Local 516
Graphic Arts International Union

R. Winston
Executive Director
Fashion Institute

A. W. Wood
Professor
Agricultural Economics
University of Manitoba

L. Zitzelsberger
Manitoba Telephone System